

## Message Text

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ACTION ARA-10

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      INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02  
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R 222122Z DEC 76  
FM AMEMBASSY SANTO DOMINGO  
TO SECSTATE WASHDC 9205  
INFO AMEMBASSY PORT AU PRINCE

C O N F I D E N T I A L SANTO DOMINGO 6161

E.O. 11652: GDS  
TAGS: EFIN, DR  
SUBJ: BALANCE-OF-PAYMENTS DEFICIT FOR 1976 LESS THAN ANTICIPATED

REF: SANTO DOMINGO 5095

1. ACCORDING TO CENTRAL BANK MANAGER MANUEL JOSE CABRAL, THE DOMINICAN REPUBLIC IS ENDING 1976 WITH A BALANCE-OF-PAYMENTS DEFICIT SUBSTANTIALLY SMALLER THAN ANTICIPATED. HE SAID THE DEFICIT MIGHT TURN OUT TO BE AS LITTLE AS \$50 OR \$60 MILLION-- SO LITTLE COMPARED WITH EARLIER PROJECTIONS THAT CENTRAL BANK OFFICIALS WERE CONCERNED THAT ENOUGH PROPER STEPS WOULD NOT RPT NOT BE TAKEN IN ANTICIPATION OF WHAT WOULD SURELY BE A MORE SERIOUS BALANCE-OF-PAYMENTS PROBLEM IN 1977.

2. ASKED HOW THE COUNTRY COULD END UP WITH SUCH A SMALL DEFICIT WHEN IT ALREADY HAD ONE OF \$80.8 MILLION AT THE END OF THE THIRD QUARTER, CABRAL ATTRIBUTED THE FAVORABLE DEVELOPMENT TO THE FOLLOWING: (1) GULF & WESTERN HAS ONCE AGAIN BEEN PREVAILED UPON TO BRING \$30 MILLION INTO THE COUNTRY IN DECEMBER AS WORKING CAPITAL FOR THE BEGINNING OF THE SUGAR HARVEST, WHICH HELPS CONSIDERABLY TO DRESS UP THE YEAR-END FIGURE; (2) FIRST NATIONAL CITY BANK HAS PROVED TO BE QUITE BULLISH ON THE DR, MOVING IN TO LEND HEAVILY TO STATE-OWNED ENTERPRISES WHICH OTHER BANKS SUCH AS BANK OF  
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AMERICA HAVE SHIED AWAY FROM; (3) FOREIGN EXCHANGE EARNINGS FROM SUGAR ARE COMING IN LATER BECAUSE OF THE WITHHOLDING OF SUGAR SALES FOR FIVE MONTHS LAST SPRING; (4) IMPORTS ARE DOWN MORE THAN ANTICIPATED EARLIER BECAUSE OF POWER OUTAGES AND A GENERAL SLOWING DOWN OF THE ECONOMY; AND (5) EARLIER IMPORT PROJECTIONS WERE MADE FROM A 1975 BASE WHICH HAD BEEN DISTORTED

UPWARD BY A PRESIDENTIAL DECREE WHICH FORCED PAYMENTS FOR SOME 1974 IMPORTS TO BE ROLLED OVER INTO 1975.

3. CABRAL, DEAN OF THE ECONOMICS FACULTY AT THE CATHOLIC UNIVERSITY IN SANTIAGO, IS LEAVING THE CENTRAL BANK ON JANUARY 1 TO RETURN TO HIS TEACHING AND CONSULTING PRACTICE IN SANTIAGO. HE ORIGINALLY AGREED TO GO TO THE BANK FOR ONLY THREE MONTHS, IS LEAVING AFTER SIX, AND APPEARS TO HAVE NO REASON FOR REPORTING ANYTHING ON THE BANK OTHER THAN THE WAY HE SEES IT. HE ADMITTED THAT THE FINAL FIGURES WERE FAR FROM IN, BUT HE GENERALLY APPEARED MORE OPTIMISTIC THAN WHEN HE CAME TO THE BANK AT MID-YEAR.

4. ALEXANDER KAFKA, BRAZILIAN EXECUTIVE DIRECTOR TO THE IMF WHO ALSO REPRESENTS THE DR, HAS JUST CONCLUDED A SHORT VISIT TO SANTO DOMINGO, ALSO ON AN OPTIMISTIC NOTE. KAFKA TOLD THE ECONOMIC COUNSELOR THAT AN IMF TEAM WOULD BE VISITING THE DR IN JANUARY AND THAT AT THAT TIME A BETTER READING OF THE B/P SITUATION SHOULD BE MADE.

5. WHILE EVERYONE MAY HEAVE A SIGH OF RELIEF THAT THE 1976 B/P DEFICIT MAY NOT RPT NOT BE AS WHOPPING AS EARLIER THOUGHT, IT IS STILL A LARGE DEFICIT IN PART OBSCURED BY ROLLING OVER PAYMENTS, DRESSING UP THE FIGURES, AND FOREIGN BORROWINGS. WITH WORLD SUGAR PRICES REMAINING DEPRESSED AND PETROLEUM IMPORT COSTS MOUNTING, A MORE SERIOUS DEFICIT IS IN THE OFFING IN 1977.

6. IN MANAGING ITS BALANCE-OF-PAYMENTS PROBLEM THE DR HAS BEEN IN THE HAPPY SITUATION OF HAVING A CENTRAL GOVERNMENT BUDGET IN BALANCE AND A LOW EXTERNAL DEBT. DURING THE FIRST HALF OF THE

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DECADE THE DEBT-SERVICE RATION FEL FROM SEVEN TO UNDER FOUR. ACCORDING TO CENTRAL BANK OFFICIALS, HOWEVER, RECENT HEAVY BORROWINGS ABROAD AND DECLINING SUGAR PRICES HAVE REVERSED THE TREND. WITH THE DEBT-SERVICE RATIO CURRENTLY ABOUT 11 OR 12.

7. WHILE THE NEW CENTRAL BANK MANAGERS WERE QUITE CRITICAL OF THE FORMER CENTRAL BANK GOVERNOR FOR DRESSING UP BALANCE-OF-PAYMENTS FIGURES AT THE END OF THE YEAR, NOW THAT THEY ARE IN CONTROL, THEY APPARENTLY SEE THE VIRTUE OF TRYING TO MAINTAIN CONFIDENCE IN THE DOMINICAN CURRENCY AND NO LONGER INTERPRET THIS AS A MATTER OF PERSONAL RATHER THAN STATE CONCERN.

8. AS FOR THE PESO, IT HAS REMAINED REMARKABLY STEADY ON THE PARALLEL MARKET THROUGHOUT 1976. FOLLOWING A SUDDEN WEAKENING A YEAR AGO FROM ABOUT 1.12 PESOS TO THE DOLLAR TO 1.18 AND 1.20, IT HAS REMAINED AT THAT RATE SINCE. IN FACT, IN THE PAST FEW DAYS IT HAS FIRMED UP SLIGHTLY WITH THE LARGE INFLUX OF DOLLARS BROUGHT IN BY THE 60,000 DOMINICANS VISITING FROM THE US FOR

THE HOLIDAYS. HAD IMPORTS NOT RPT NOT SLOWED DOWN, IT WOULD  
PERHAPS HAVE WEAKENED FURTHER. IT CERTAINLY HAS NOT RPT NOT  
FIRMED UP AS MUCH AT YEAR'S END AS IN FORMER YEARS, BUT NEITHER  
HAS IT SAGGED AS MANY WERE PREDICTING ALL ALONG.  
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